

Message Text

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ACTION ARA-20

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SUBJ: NATIONALIZATION WILL PROCEED THROUGH PROCESS OF NEGOTIATION

1. ARGENIS GAMBOA, VENEZUELAN GOVERNMENT'S NUMBER TWO MEMBER OF THEIR NEGOTIATING TEAM FOR IRON ORE NATIONALIZATION, TOLD PRESS IN PUERTO ORDAZ JUNE 6 THAT CONVERSATIONS WITH REPRESENTATIVES OF ORINOCO MINING COMPANY (U.S. STEEL) AND IRON MINES DE VENEZUELA (BETHLEHEM STEEL) ARE PROCEEDING NORMALLY AND THAT THERE IS EVERY REASON TO THINK THAT PROCESS WILL LEAD TO A FAVORABLE SOLUTION WITHOUT RESORTING TO POWER OF EXPROPRIATION. GAMBOA REPORTEDLY WENT ON TO EXPLAIN THAT POWER OF EXPROPRIATION EXISTS LEGALLY AND COULD BE USED BUT "...WILL NOT BE EMPLOYED BECAUSE WE CAN REACH AN AGREEMENT."

2. GAMBOA INDICATED THAT NEGOTIATING PROCESS WILL TAKE TIME BECAUSE IT REQUIRES A GREAT DEAL OF WORK INCLUDING DETERMINING AMOUNT OF COMPENSATION, WHICH HE REITERATED WILL BE BASED ON NET ASSET VALUE. HE ADDED THAT PROCESS WILL REQUIRE AUDITING BY NATIONAL STEEL COUNCIL AND BY CONTROLLER OF THE REPUBLIC AND RESULTS OF NEGOTIATIONS WILL HAVE TO BE SUBMITTED FOR CONSIDERATION OF EXECUTIVE BRANCH AND CONGRESS. GAMBOA SAID "NECESSARY TIME MUST BE ALLOCATED TO THE PROCESS BECAUSE ONE MUST CONSIDER THAT VENEZUELA BELONGS TO LIMITED OFFICIAL USE

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CONCERT OF CIVILIZED NATIONS AND MUST FULFILL ITS OBLIGATIONS."

3. AS GAMBOA MAKES CLEAR IN THIS STATEMENT, VENEZUELAN GOVERNMENT HOPES TO ARRANGE TO TAKE OVER CONTROL AND OWNERSHIP OF ASSETS OF IRON ORE COMPANIES THROUGH PROCESS OF NEGOTIATION AND NOT THROUGH EXPROPRIATION. VENEZUELAN GOVERNMENT HAS INDICATED THAT IT EXPECTS TO FOLLOW SAME PROCEDURE WITH OIL COMPANIES. THUS, EVEN THOUGH PROCESS OF NEGOTIATION COULD NOT IN ANY SENSE BE CONSIDERED VOLUNTARY FROM POINT OF VIEW OF COMPANIES AFFECTED, QUESTION OF EXPROPRIATION HAS NOT YET ARISEN AND APPARENTLY WILL NOT ARISE UNLESS NEGOTIATIONS BREAK DOWN. ACCORDINGLY, THERE WOULD SEEM TO BE NO BASIS AT THIS TIME FOR USG TO MAKE REPRESENTATIONS REGARDING ANY "PROPOSED NATIONALIZATION," AND TO TAKE ANY STEP OF THAT KIND WOULD BE LIKELY TO INTERFERE WITH NEGOTIATIONS NOW BEING CARRIED OUT BY IRON ORE COMPANIES AND SUBSEQUENTLY, WE PRESUME, TO BE CARRIED OUT BY OIL COMPANIES, AND COULD SUBSTANTIALLY DIMINISH CHANCES FOR COMPANIES INVOLVED TO REACH SETTLEMENT THAT WOULD PRESERVE THEIR MAJOR INTERESTS

IN THIS COUNTRY - CONTINUED ACCESS TO IRON ORE AND OIL, RESPECTIVELY. U.S. VIEWS ON NATIONALIZATION, WHICH ARE WELL KNOWN IN VENEZUELA AND NEED NO REITERATION AT THIS TIME, FOCUS MAINLY ON QUESTION OF COMPENSATION WHICH IS NOT NOW AT ISSUE IN THESE CASES, AS VENEZUELA HAS MADE CLEAR ITS INTENT TO PAY COMPENSATION, AND NO COMPANY INVOLVED - TO EMBASSY'S KNOWLEDGE - HAS MADE ANY PROTEST WITH RESPECT TO BASIS ON WHICH THAT COMPENSATION WOULD BE CALCULATED.
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